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C O N F I D E N T I A L AIT TAIPEI 000900

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TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF GOVERNORS,  
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TAGS: [ETRD](#) [ECON](#) [PREL](#) [PGOV](#) [TW](#)  
SUBJECT: TAIWAN PUSHING FOR FTA

REF: TAIPEI 774

Classified By: AIT Acting Director David Keegan for reasons  
1.5 (b), (d)

11. Summary: (C) Taiwan has stepped up its campaign for a Free Trade Agreement with the U.S. While Taiwan often cites economic rationales, its primary motivation continues to be its political desire to trumpet an FTA as a sign of its independence from China. US business interests would want an FTA to boost integration across the Straits while the Chen Administration seeks it to curb ties. As such, Taiwan would be happy to begin formal talks and not actually conclude an FTA. This way it could reap the benefits of the perception that is has strengthened ties with the U.S., and it could still avoid the inevitable protests that would erupt over the prospect of opening its rice and other agricultural markets to the United States. End summary.

Pushing for an FTA  
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12. (U) Taiwan has been pushing for talks with the U.S. on a Free Trade Agreement for several years. It has publicly called for such talks, regularly raised it as a bilateral trade issue and commissioned studies to provide an economic rationale for an FTA. Over the past year, the issue has taken on a new urgency for the Chen Administration, and it has begun a campaign across several fronts to urge the U.S. to conclude (or at least announce talks for) a bilateral FTA.

13. (U) Following lobbying efforts by Taiwan supporters in the U.S., Congress passed 'sense of the Congress' resolutions

that urge the Administration to begin FTA talks with Taiwan. According to Taiwan officials more than half of US state legislatures have passed resolutions supporting an FTA with Taiwan. As AIT has been meeting with Taiwan's newly appointed officials following President Chen Shui-bian's latest cabinet shuffle, each official has pointedly called for the U.S. to engage in FTA talks as soon as possible. The list of these officials include: Vice Premier Tsai Ing-wen, Minister without Portfolio Ho Mei-yueh, Minister of Foreign Affairs James Huang, Presidential Office Secretary General (and former FonMin) Mark Chen, and Minister of Finance James Jyu. We are also receiving a full-court press on FTA from the working level. In a lunch hosted March 2 by AIT's counterpart, TECRO, the first topic of conversation was FTA.

#### Economic Reasons

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14. (SBU) Vice Premier Tsai told us February 20 that a bilateral FTA with the US is at the top of her agenda and that she was told by Premier Su Tseng-chang to deal with this issue as a matter of priority. She pointed to economic reasons for an FTA, citing FTA talks between the US and South Korea as putting Taiwan in a less competitive position. Tsai said Taiwan is willing to grant the US access to its agricultural market and suggested that this would give the US a dominant position vis-a-vis Australia and New Zealand in Taiwan's competitive agricultural products market.

15. (SBU) Minister without Portfolio Ho Mei-yueh, former Minister of Economic Affairs, laid out a comprehensive rationale for an FTA, echoing the same points that Tsai used while also commenting on geo-political motivations for securing a bilateral FTA (reftel and septel). The rest of the senior interlocutors echoed Vice Premier Tsai's points in urging the US to engage in FTA talks.

#### Counterbalance to China

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16. (C) National Security Council Senior Adviser Lin Chin-wei told AIT March 9 that FTA negotiations with the U.S. would make it easier for Taiwan to liberalize trade with China by removing some of the fear of economic domination by China. We questioned Lin's assertion, but have found that many in the Pan-Green camp find his logic compelling. Minister Ho, to cite just one example, said that she sees an FTA as a counterbalance to China's dominance of Taiwan's economy. She is well aware that China is Taiwan's top trading partner and favorite destination for investment. Vice Premier Tsai is generally credited as originating the idea of seeking an FTA, when she was the Chairman of the Mainland Affairs Council during Chen's first term in office, and her goal was to use the US as a counterbalance to China's powerful attraction to Taiwan's business sector.

#### COMMENT: Understanding Motivations

--For Green Politicians & the Chen Administration

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17. (C) Comment cont.: Taiwan's main motivation for an FTA continues to be as a political symbol of acceptance in the international community. It seeks recognition from the US as an independent entity and will use any such agreement that results to trumpet its independence and separate identity from China. It would seek to use such an agreement as an argument for other countries, such as Japan, Australia and EU members, to enter into FTAs with Taiwan. On the domestic political front, the Chen Administration would declare that FTA talks with the US demonstrate its competence in the economic arena and serves to counterbalance economic ties with China.

-- For Taiwan Business

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18. (C) Tsai and Ho are perfectly aware that an FTA with the

US will not significantly alter China's attraction for Taiwan's business community (much as President Chen's Green supporters might wish otherwise). Taiwan has a wealth of benefits to offer China, including management expertise, manufacturing excellence, technological capability and experience in world markets, and it has the additional advantages of shared language, culture and location to make excellent use of its benefits. Taiwan firms certainly ship a great deal of high-tech products to the US and want to continue doing so, but the prospects for sustained real growth for Taiwan firms lie in finding beneficial linkages with China (and other Asian economies). The current basis for growth is using China as a manufacturing platform to export to the world, but China's internal market is becoming an increasingly important draw for Taiwan firms. Taiwan chain stores are already a presence all over China. In the future, Taiwan firms (from both the Blue and the Green camps) want to have greater integration to make use of professional and technical talent in China to develop and market innovative products in China and worldwide.

-- For US Firms

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¶9. (C) The Taiwan market is a large and important destination for US firms. However, it pales in comparison to the size and growth of the Mainland market. US firms individually and the American Chamber of Commerce in Taiwan regularly tell us that their firms want to operate in the Greater China (China plus Hong Kong, Macau, and Taiwan) market and to see increased integration across the Straits, rather than the increased tensions that have been evident since President Chen's New Year's Days speeches on January 1 and 28. For an FTA to be beneficial for US business, it would need to help US firms operate in Greater China rather than serve the ruling party's desire to counterbalance economic ties with China.

Talks Are More Important to Taiwan than an Agreement

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¶10. (C) It is not at all clear that Taiwan is prepared to conclude an FTA. Taiwan's primary motivation for an FTA is political and the primary political gain would be engaging in formal talks. We do not believe that the Chen Administration views the expiration of US Trade Promotion Authority in July 2007 as a deadline for concluding an agreement. While trade officials and a number of analysts clearly understand that an FTA would require Taiwan to completely open its agricultural market, this requirement has not been part of the public discussion. Taiwan activists participated in denouncing the WTO Ministerial in Hong Kong and will undoubtedly become more active in Taiwan should FTA talks commence. The Chen Administration could experience a change of heart when Taiwan's rice farmers turn out in numbers to oppose access to Taiwan's rice market. End Comment.  
KEEGAN